

## Natural England Audit Committee

### NEB PU08 09 – Annex B

Paper No: AC/5/M1

Title: Unconfirmed Minutes of the Fifth Natural England Audit Committee Meeting

26 November 2007, 13.30-16.20

**Present:** Christopher Pennell Chair  
Poul Christensen  
David Hill  
Ian Scott  
Pam Warhurst

**In attendance:** Helen Phillips Chief Executive  
Dave Webster Executive Director Corporate Services  
Mark Babington Assignment Director, National Audit Office  
Mike Doughty Head of Internal Audit  
Paul Lambert Director of Finance  
Paul Egginton Director, Business Systems Improvement  
John Henstock Head of Health and Safety  
Emily Finnie Internal Audit Team Leader (Secretariat)

**Apologies:** Jo Raby, Assignment Manager, National Audit Office

### Welcome

The Chair of the Audit Committee welcomed everyone to the fifth meeting of the Natural England Audit Committee.

On behalf of the Committee, the Chair welcomed Mark Babington Natural England's Assignment Director at the National Audit Office. The Committee recorded its thanks to Steve Allen for all the work he had done for Natural England and its founding bodies and agreed the Chair should write on its behalf. (**Action: Christopher Pennell**)

The following interest was declared: Poul Christensen is on the Defra Management Board.

#### **1 Minutes of the Fourth Meeting of the Audit Committee held on 10 September 2007 (AC/4/M1)**

1.1 The Committee **confirmed** the minutes of the fourth meeting of the Audit Committee without amendment.

#### **2 Matters Arising (AC/5/A1)**

2.1 The Committee noted that, apart from updates given below, the matters arising from the last meeting had been discharged or were covered by agenda items.

2.2 At this stage, the Committee agreed with JNCC's decision that sharing risk registers was more appropriate than producing a joint risk register because there was not

much of an overlap of risks. However, where risks were shared, eg EU reporting requirements, it would be worth exploring further.

- 2.3 The Chair reported that the Annual Report and Accounts had been laid before Parliament at the first opportunity after the Summer recess.
- 2.4 The Committee noted that a report on the anti-fraud workshop to be held on 6 December would be given at the March meeting. **(Action: Mike Doughty)**
- 2.5 The Chair reported that the Board had considered the Committee's Annual Report at its last meeting. The Board was comforted by the work of the Committee and pleased with the work of all who were involved in providing assurance.
- 2.6 The Committee recorded that all Members had received appointment letters from the Chair of Natural England on 9 October 2007.

### **3 Defra Shared Services Directorate – Provision of back office services (AC/5/P1)**

- 3.1 Dave Webster introduced the paper. Following the Chief Executive of Shared Services Directorate (SSD)'s presentation to the last meeting, the Committee had requested an update on SSD's performance and the options for alternative delivery.
- 3.2 The Committee noted the progress made with SSD. In considering current levels of performance, Members were reminded of the detailed concerns shared with the Chief Executive of SSD, and noted that underlying issues remained in spite of improvements in the statistics. In discussion the Committee:
  - 3.2.1 noted its concerns had resulted in SSD and Defra giving Natural England greater focus, but questioned whether this disproportionate amount of management time driven by the Service Level Agreement was sustainable in the longer term;
  - 3.2.2 while welcoming the improved statistics for October that showed most targets measured were met, recognised that there were not good metrics for some areas, particularly HR and facilities management, and suspected that staff were beginning to accept poor performance and were no longer registering complaints.
  - 3.2.3 noted that compliance issues eg retrospective orders, were beginning to emerge in internal audit reports, and that current levels of reporting were inadequate but that we required system functionality to deliver improved reports.
  - 3.2.4 advised that the decision on whether the improvements were good enough for Natural England to continue with SSD, needed information from a broader range of performance measures and noted that work was in progress with SSD to develop these.
- 3.3 The Committee concluded that progress made should not deter exploration of alternatives and agreed that a contingency plan was needed. It was noted that there was a 5-year contract term with SSD.
- 3.4 In considering the Shared Service Contingency Plan at Annex 1, the Committee:
  - 3.4.1 noted the considerable timescale and commitment required in an activity of this scale, and the need to establish a set of criteria to trigger the contingency plan;

- 3.4.2 noted that issues about the VAT position, the TUPE transfer of staff, and the probable fall off in service from SSD, if the alternative provider option was chosen, would all need to be addressed in the plan.
- 3.4.3 advised that there could be benefits from discussion with other departments eg the Cabinet Office who were to join the Department for Work and Pension's shared services, but advised that it would be important for Natural England to ensure that the service was fit for purpose because it would be a smaller partner and therefore have less influence over the quality and content of the service.
- 3.4.4 advised that the time commitment in undertaking this work would primarily be around defining the contract, but that this would not be nugatory work even if the decision was made to stay with SSD because it could be used to upgrade the Service Level Agreement.
- 3.5 The Committee agreed it would be in a better position to take a view on how to take this forward if a detailed business case could be prepared and asked for this to be done for consideration at the March meeting. The case should include all options for providers, including in-house provision and splitting the service between different providers, and also benchmarking information and a cost benefit analysis. In the meantime further improvements would be sought and monitored from SSD. **(Action: Paul Lambert and Dave Webster)**
- 3.6 In conclusion the Committee asked if there was any more it could do in assisting executive management to take this forward. It was suggested that the Chair should consider writing to the Chair of the Defra Audit Committee because the shared service issue was also on its agenda. **(Action: Christopher Pennell)**

## **4 External Audit**

### **Annual Report and Accounts 2006/07**

#### **Closure Lessons Learnt and Progress on Action Plan ( AC/5/P2)**

- 4.1 Paul Lambert introduced the paper. The Committee was heartened by the report and in discussion:
- 4.1.1 appreciated the hard work in hand to ensure that the 2007/08 Annual Report and Accounts were presented to Parliament prior to the recess in July 2008.
- 4.1.2 noted the results of the lessons learnt review carried out by Natural England and NAO on the 2006/07 Annual Report and Accounts, and welcomed the new NAO team and the timetable and plan that were detailed in the NAO Audit Strategy for 2007/08.
- 4.1.3 felt it would be remiss not to raise the issue of the audit fee for 2006/07 that it had expected to see included in the report. It was noted that the fee for 2006/07 was paid as agreed originally, and that NAO had not billed Natural England for the extra work. In looking forward for 2007/08 it was noted that NAO would be devoting more management time to Natural England and that this was not reflected in the fee. NAO were asked to breakdown the fee for current year and provide an estimate for the 08/09 fee. **(Action: Mark Babington)**
- 4.1.4 The Committee looked forward to receiving the interim accounts (nine months) at its March meeting. **(Action: Paul Lambert and Dave Webster)**

### **Final Management Letter: Review Progress on Actions (AC/5/P3)**

- 4.2 Paul Lambert introduced the paper outlining progress on management actions arising from the NAO Final Management Letter for 2006/07. The Committee accepted the progress report.

### **National Audit Office Audit Strategy for 2007/08 Accounts (AC/5/P4)**

- 4.3 Mark Babbington introduced the audit strategy for 2007/08 drawing the Committee's attention to the arrangements for the production of interim accounts for the first nine months of the year so that the final audit could focus on the last three months and the annual accounts.
- 4.4 In relation to the action point from the last meeting on NAO governance and dispute resolution, Mark Babington explained that NAO did not wish to qualify any accounts and worked hard with clients to reach agreement. As Assignment Director he would not expect issues that were not material to derail the audit process which is why, on appointment he had moved quickly to close the 2006/07 accounts. Looking forward the Committee noted he would be handing over to Maggie McGee who would be responsible for the Defra portfolio, while he would retain responsibility for the audit of European funds.
- 4.5 The Committee:
- 4.5.1 noted NAO would be working closely with Natural England over the introduction of new International Accounting Standards (IFRS) with the development this year of figures for comparators, ready for introduction in the 2008/09 Annual Accounts.
- 4.5.2 welcomed the strengthened NAO audit team that would be focussed on identifying and solving with Natural England any problems that emerged during audit work.
- 4.5.3 noted the current fee included an extra £10-12k to document SSD processes and procedures, which could be avoided if shared with the Defra audit.
- 4.5.4 welcomed the analysis of risks in the audit strategy.
- 4.6 The Committee noted the tight timetable for the agreement of the final accounts and the Chair and Ian Scott offered to meet the Finance and NAO teams in advance of the June Audit Committee meeting for a pre-meeting on the 2007/08 Annual Report and Accounts. Dave Webster and Paul Lambert were invited to suggest a suitable date. **(Action: Paul Lambert and Dave Webster)**
- 4.7 The Committee thanked Mark Babbington for attending the meeting. It had renewed confidence in the NAO and looked forward to meeting Maggie and Jo at future meetings.

### **5 Internal Audit Report (AC/5/P5)**

- 5.1 Mike Doughty introduced his report that provided the Committee with an update on the progress and outputs from the internal audit activity for 2007/08; the proposed internal audit strategy; and the opportunity to consider elements that should be included in the internal audit plan for 2008/09.

### **Internal Audit Progress Report for 2007/08**

- 5.2 In discussing progress of internal audit activity to date, the Committee:
- 5.2.1 noted the first final reports for 2007/08 on financial controls and PAYE had been given a limited assurance rating but that this would rise to substantial with implementation of the agreed management actions. The management of debt recovery and VAT issues was noted.
  - 5.2.2 recognised the significant progress with developing internal controls since vesting but advised that the next few months were crucial in making progress with financial controls because it would not expect to see the extent of post-vesting issues raised again in next year's financial reviews.
  - 5.2.3 stressed the importance of the organisational reputation review (part 2) and noted that the final report would come to the June meeting. In the meantime it was suggested that Pam Warhurst be added to the list of audittees for this audit.  
**(Action: Mike Doughty and Emily Finnie)**
  - 5.2.4 noted plans for annual team reviews (NE, NW and Evidence Teams in 2007/08). Terms of Reference would cover action against the delivery agreement, compliance with procedures and checks on the Statement on Internal Control questionnaire returns.
  - 5.2.5 repeated concerns about the amount of work remaining to be done in quarters three and four, but had confidence in PWC's ability to deliver.
  - 5.2.6 noted the timetable and progress on actions for the procurement process for the next contract for provision of internal audit services was on target.
  - 5.2.7 noted the range of advice given by the new in-house senior specialist internal auditor.
  - 5.2.8 noted the summary of recommendations monitored in management action plans contained a number still in progress for Health and Safety. The new Head of Health and Safety was revisiting these and progress would be reported at the next meeting.  
**(Action John Henstock and Mike Doughty)**
  - 5.2.9 noted that in future, relevant management actions would be given to Executive Directors to include in their quarterly reviews with teams.

### **Internal Audit Strategy**

- 5.3 In reviewing the Internal Audit Strategy, the Committee recognised assurance was wider than that provided by internal audit and requested that on a future occasion it should have the opportunity to explore the assurance map for Natural England.  
**(Action: Mike Doughty).**
- 5.4 The Committee endorsed the Internal Audit Strategy.

### **Proposed Internal Audit Plan for 2008/09**

- 5.5 In commenting on elements that should be included in the proposed internal audit plan for 2008/09, the Committee suggested inclusion of:
  - Business continuity

- Risk management
  - Genesis
  - International Financial Reporting Standards (IFRS) implementation
  - Data security
  - Follow up to 2007/08 reviews
  - Progress against Statement on Internal Control issues.
- 5.6 Mike Doughty would bring the 2008/09 internal audit programme back to the March meeting for endorsement. **(Action: Mike Doughty)**
- 5.7 In conclusion the Committee noted a significant improvement in resources devoted to internal audit with the appointment of Peter Sleigh bringing the Internal Audit Team up to strength. The team also provided secretariat services to the Committee that it was agreed should continue. The Committee requested a structure chart for the Internal Audit Team. **(Action: Mike Doughty).**

## **6 Risk Management (AC/5/P6)**

- 6.1 Dave Webster introduced the paper that updated the Committee on risk management activity. The Committee noted the position on risk management guidance and training, and in particular that a pilot Risk and Control workshop had been held, which when rolled out in a programme for all teams would generate bottom-up risks that would be matched with a review of the strategic risk register.
- 6.2 The Chair reported that he had attended the pilot workshop that had been a lively and valuable session generating good debate on risk management. He hoped that before too long ELG members would be more familiar with the Strategic Risk Register. Audit Committee members were invited to attend future workshops and Paul Lambert agreed to circulate the programme of dates. **(Action: Paul Lambert)**
- 6.3 In reviewing the Natural England top level strategic risk register the Committee suggested:
- 6.3.1 there should be a strong sense of integrated delivery across all Natural England's programmes and that an opportunity was being missed if risk 3 related only to CAP;
- 6.3.2 in relation to risk 6, the major risk was how Natural England was perceived externally;
- 6.3.3 risks should be added in relation to IFRS, the Corporate Spending Review 2007, the Severn Barrage and BAP priorities;
- 6.3.4 Blue Tongue should be added to risk 10;
- 6.3.5 adding a risk in relation to the failure to spot opportunities that could have resource implications eg Big Lottery;
- 6.3.6 the risk register could be made more dynamic by inclusion of the residual risk after mitigation factors, and by showing movement through a matrix plotting changes in risk. **(Action: Paul Lambert)**
- 6.4 The Committee noted the position on the current risk registers, and the position on actions arising from the Risk Management Assessment Framework appraisal undertaken by the Executive Board.

- 6.5 The Committee welcomed Paul Egginton's briefing on the risks and criteria for the acceptance of Genesis. The Committee:
- 6.5.1 noted the seven main acceptance criteria for Genesis and advised that Natural England should ensure it was covered for all eventualities;
  - 6.5.2 raised the issue of the asset life for Genesis in Defra's accounts and noted Natural England was not prepared to accept Genesis on the basis of the current valuation;
  - 6.5.3 supported NAO's request to be involved in the final valuation discussions because of its materiality in relation to Natural England's annual accounts.
  - 6.5.4 noted the risk in relation to the Land Registry and RPA mapping exercise had reduced because ways had been devised to automate changes and minor shifts would not be material to the value of the agreements.
  - 6.5.5 noted difficulties over VAT issues.
- 6.6 The Committee noted that there would be a paper on Genesis for the Board and it was agreed to circulate a copy to Ian Scott too. **(Action: Emily Finnie)**
- 6.7 The Committee concluded that it continued to be pleased with the risk management system, and anticipated that outcomes from the staff conferences and staff survey and the impact of ever tighter GIA settlements on Natural England's activities would be fed into the substantial revision of the Strategic Risk Register that it looked forward to considering at its next meeting. **(Action: Paul Lambert and Dave Webster)**

## **7 Corporate Governance (AC/5/P7) - Improving Internal Control**

- 7.1 Paul Lambert introduced the paper that gave an update on work to improve internal control in Natural England. The Committee:
- 7.1.1 noted the process for the interim internal control questionnaire and agreed to receive a report at its March meeting after it had been considered by the Executive Board. **(Action: Paul Lambert)**
  - 7.1.2 noted that in 4.3, 'partly agree' should read 14% and not 20% for the 2006/07 SIC return.
  - 7.1.3 noted that risk and control workshops would help in getting the message across about completing the questionnaires honestly, and would also provide the opportunity to go through the team's questionnaire to assist with consistency and understanding.
- 7.2 The Committee was pleased to receive NAO's praise for Natural England's 2006/07 Statement on Internal Control, and support for the process that allowed such a good document to be produced that justified the effort put in by Natural England.

## **8 Losses and Special Payments Report for 2006/07 (AC/5/P8)**

- 8.1 The Committee noted the Losses and Special Payments Report for 2006/07.

## **9 Cases of Fraud or Presumptive Fraud**

9.1 The Committee noted that there were no cases of fraud or presumptive fraud to report.

## **10 Progress on Implementation of Health and Safety Policy and Procedures across Natural England (AC/5/P9)**

10.1 The Committee welcomed John Henstock who outlined progress with the implementation of Health and Safety policy and procedures across Natural England. The Committee noted that :

10.1.1 Natural England had a good basis for developing health and safety with policies inherited from the founding bodies and support from the Chief Executive and Executive Directors. Policies were now being reviewed to align them with Natural England's business processes. Three key areas had been reviewed (NNRs, volunteers and offices).

10.1.2 more progress could be made with delivery of training now that the regional health and safety staff had been appointed. New policies, procedures and the handbook would be promoted at road-shows.

10.2 In discussion the Committee:

10.2.1 welcomed Natural England's real commitment to health and safety and supported seeing it embedded into Natural England, and the aim to be an upper quartile organisation.

10.2.2 suggested that positive health initiatives should be explored and noted that Health and Safety team were in discussion with OD over this, and that Helen Phillips was engaged in discussion with the Oxford Health Alliance to whom Natural England had been offered as a pilot.

10.2.3 recommended that priority should be given to pulling together and re-branding the lone working policy.

10.2.4 noted that one significant accident had been reported and advised that consideration should be given to timely communication of lessons learnt from such incidents.

## **11 Audit Committee (AC//P10)**

11.1 The Chair introduced the paper that provided the Committee with an opportunity to review its Terms of Reference, consider its effectiveness in its work, and also to review the meeting and to take a forward look at business for the remainder of 2007/08.

### **Terms of Reference**

11.2 The Committee noted and agreed the proposed changes to its Terms of Reference in Annex 1. The changes reflected the overview the Committee took over risk management, updates to job titles and to better match the Treasury model to show that the Committee did not have executive responsibilities. In addition the Committee requested that changes be made to include:

- the effectiveness of anti-fraud policy, and

- clarification of the Audit Committee's role vis a vis the Board's with regard to the Annual Report and Accounts.

11.3 The Committee agreed that its revised Terms of Reference should be recommended to the Board for approval at its next meeting. **(Action: Christopher Pennell and Mike Doughty).**

#### **Audit Committee Competency Framework**

11.4 The Chair thanked all Members for completing the questionnaire. In discussion the Committee:

11.4.1 considered the responses reflected the stage in the organisation's development, and that the exercise had been more rigorously completed as individuals rather than as a Committee.

11.4.2 noted all high priority concerns were not unexpected in relation to external audit because the Committee's confidence had been substantially reduced by the review of 2006/07 accounts

11.4.3 concluded that it was pleased with its progress at this stage, but that it would wish to repeat the exercise in a year's time perhaps using a different model and also including a check on ways of working.

#### **Review of Meeting and Future Business**

11.5 The Committee reviewed the meeting and concluded that it had gone well.

11.6 The Committee noted the standard items of business for its next meeting on 10 March 2008, and in addition to the additional items noted during the meeting requested that the agenda include an item on data security. **(Action: Emily Finnie to note for agenda)**

### **12 Any other Business**

12.1 The Chair reported that he and Dave Webster had attended the annual Audit Committee conference the previous week and circulated the agenda. He recommended that members consider attending this valuable event next year bearing in mind the provision now made for training in Members' time commitment to the Committee.

12.2 Dave Webster reported that NAO had advised Natural England that they would be conducting a Value for Money study on SSSIs. Further information would be provided to Members in Board updates.

**Action Points****Fourth Meeting of the Natural England Audit Committee – 10 September 2007**

<b>No</b>	<b>Min ref</b>	<b>Action</b>	<b>Responsibility</b>	<b>Action taken</b>
1	Introduction	Write on behalf of the Committee to thank Steve Allen	Christopher Pennell (Emily Finnie to draft)	
2	2.4	Give a report on the anti-fraud workshop to the March meeting.	Mike Doughty	
3	3.5	Prepare a detailed business case on shared service options for the March Audit Committee.	Paul Lambert and Dave Webster.	
4	3.6	Consider writing to the Chair of the Defra Audit Committee about Defra Shared Services Directorate.	Christopher Pennell	
5	4.1.3	Breakdown fee for current year and provide estimate of 08/09 fee	Mark Babington	
6	4.1.4	Bring the interim accounts for 2007/08 to the March meeting	Paul Lambert and Dave Webster	
7	4.6	Agree date for NAO/Finance Team meeting with Chair and Ian Scott on the 2007/08 Annual Report and Accounts	Paul Lambert and Dave Webster.	
8	5.2.3	Add Pam Warhurst to list of auditees for Organisation Reputation Review (part2)	Mike Doughty and Emily Finnie	
9	5.2.8	Report progress on H&S management actions to March meeting.	John Henstock and Mike Doughty	
10	5.3	Provide opportunity for the Committee to explore the assurance map at a future meeting	Mike Doughty	
11	5.6	Bring the 2008/09 internal audit programme back to the March meeting.	Mike Doughty	
12	5.7	Provide Members with a structure chart for the Internal Audit Team.	Mike Doughty	
13	6.2	Circulate programme of dates for Risk and Control Workshops to Committee members.	Paul Lambert	
14	6.3.6	Include residual risk after mitigation factors in risk register	Paul Lambert	
15	6.6	Send a copy of the Genesis Board paper to Ian Scott.	Emily Finnie	
16	6.7	Bring the revised strategic risk register to the March meeting	Paul Lambert and Dave Webster	
17	7.1.1	Bring the results of the interim internal controls questionnaire to the March meeting	Paul Lambert	
18	11.3	Recommend the revised Audit Committee TOR for approval at the December Board meeting.	Christopher Pennell and Mike Doughty	
19	11.6	Include item on data security on March agenda	Emily Finnie	